



CPB Netherlands Bureau for Economic  
Policy Analysis



CPB  
The world's oldest fiscal  
watchdog

Coen Teulings

- London  
May 23 2012



## CPB Directeur Teulings: zeer relevante delen van Brussel' willen de bezuinigingspijn voor Nederland verzachten.

CPB Director Teulings says:  
“relevant parts of Brussels do want to soften the austerity pain for the Netherlands

de Volkskrant, March 27th 2012

- Recent plea in FT for structural reform, not immediate austerity
- Fiscal Compact
- Common experience with the Swedish fiscal council

ft.com > comment > Welco

# The A-List

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 **Jean Pisani-Ferry** February 27, 2012

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EUROPE • FINANCE

## Eurozone countries must not be forced to meet deficit targets



# Formal position

- Just a department within Ministry of Economic Affairs
  - Not an *agency* or *independent body*
  - Director = civil servant, appointed by the cabinet
  - Both different from OBR
- Staff of 100-150
  - Large compared to other countries
  - ... but useful
  - Combines tasks of OBR, IFS and NIESR



# Public reputation / rules of conduct

- Generally accepted as independent source
- Day to day in the press
- Evaluation of election platforms
- Works also for opposition parties
- Recently: accessible for parliament (maybe dangerous)
- I never experience any pressure on our forecast
- We try to be ahead of the policy debate
- Leave convincing voters to political parties
- Only arbitrator on request (actually, quite often)



## Even then

- Regular attempts to influence our stance
- By ministers
- ... or civil servants
  - On behalf of their political bosses
  - ... or on their own behalf
- Gaming our models
  - E.g.: impact assessment of last consolidation package
- Poses demands on
  - Corporate culture of CPB
  - Being director is a tough job



# Election cycle (4 years)

- Mid term forecast
  - Including an analysis of ageing and sustainability
- Advisory Group on Fiscal Policy
  - Gives advice on budgetary goals
- CPB analysis of election platforms
- Elections
- Negotiations on new coalition agreement
  - Ceilings for expenditure in real terms
  - Half way deficits should be compensated
  - Tax rates and premiums on revenue side
  - Automatic stabilization on revenue side (till sofar?!)



# Evaluation election platforms I

- On request political parties, almost all participate (different from IFS)
- Merits
- Same underlying economic scenario
- Evaluation by identical standards
- Makes programs comparable
- Improves technicalities in proposals
- Deeply suspicious regarding free lunches
- Checks practical and juridical feasibility
- Starting point bargaining for new government
- Issues: cutting on civil service,



## Summary overview of the effects of the election platforms of 9 different political parties (changes relative to baseline, unless otherwise mentioned)

	<b>CDA</b>	<b>PvdA</b>	<b>SP</b>	<b>VVD</b>	<b>PVV</b>
Improvement EMU-balance 2015	18	11	10	20	15¾
Sustainability of public finances	33	31	16	39	17
Structural employment (%)	4	2½	- 1	5¾	¼
Quality of transport	¾	¾	-¼	¼	¼
Car use (%)	10 -15	10-15	0	0	0
Public transport use (%)	5-10	5-10	+ 5	0	0
Reduction of greenhouse gases (Mton Co2)	36	44	21	2	2
Effect education (%)	2¼	4¾	¼	4	¼
Housing market (welfare gains % gdp)	0.1	0.5	0.4	0.3	- 0.1
Health care, (employment, 2015, thousand)	-10	-15	+15	-50	+10





# Evaluation election platforms II

## Objections

- Constrains political debate (e.g. juridical feasibility)
- Bias in debate to proposal that are easily evaluated
  - Institutional reform in health care
  - Compare free lunch skepticism
- Favors short run Keynesian above structural effects
  - Solution: e.g. Mimic model
  - Lines up to experience: structural reform takes time
  - Compare '80 in Netherlands, '90 in Sweden
- Broad remit, long history in the Netherlands
  - Wage policies during '70
  - CBA for Dutch railways



# Reassessing role of macro model

- Excess attention for Keynesian instead of structural effects
- Solution: separate micro/partial equilibrium model
  
- Insufficient flexibility of model: e.g. financial crisis
- Simultaneity bias in estimation/weak empirical underpinning
- Lost linkage to scientific literature
  - Global phenomenon: IMF, OECD, other countries
- DSGE is even more inflexible/limited success in forecasting
- Standard VARs are too small to be serious
- Including broader set of variables (e.g. consumer confidence)
- Solution: Bayesian VARs?



# Lessons and implications (Romer, IMF)

## Fiscal Policy lessons:

- Changes in fiscal policy have large effects in short run
- Unsustainable long-run budget deficits eventually lead to ruin

## Implications for Policy

- Immediate austerity is likely to be counterproductive
- Back-loaded austerity is needed
- Strong countries should be pursuing expansionary policy
- Structural reforms are needed, but benefits are long-term
  - Reforms are not softies, it is tough! (compare FT)
- Monetary policy needs to be more helpful



# Recent Dutch experience

- Triple A status till so far, relatively low interest rates
- Huge balance of payment surplus
- Despite substantial consolidation, deficit 2013 up to 4.6%
- Call for additional austerity to meet 3 % target EU
- Plea CBP to the contrary, no impact on public opinion
- Why?
  - Excess commitment politicians to European norms
  - Experience of Keynesian policies in '80
  - Inadequacy of economist advice: if we have to postpone consolidation today, why doing it tomorrow
- Recent effort CPB to answer that question



# Reforms and austerity are substitutes!

- Government debt is claim on future generations
- The same applies for constraints on competition
- Tradability of claims assigns all future rents to current insiders
- Examples
  - Mortgage deduction and house prices  
even balanced budget abolishment favors future gen.!
  - Price of a cab license
  - Goodwill on professional practices
- Prioritizing needed: you cannot hit current generation always
- Reform is not for softies



# Debt bias in politics?

Research Adi Brender (Bank of Israel)

- only in new democracies (<4 elections)
- in old democracies
  - voters are wiser
  - politicians do not gain from political fiscal cycle
- Fits recent Dutch experience
  
- Fiscal councils should be involved in structural reform !
- That requires some staff ! (e.g. wage policy in '70, Mimic '00)



# Lesson I: towards structural reforms

- Government debt is claim on future generations
- The same applies for constraints on competition
- Tradability of claims assigns all future rents to current insiders
- Examples
  - Mortgage deduction and house prices
    - even balanced budget abolishment favors future gen.!
  - Price of a cab license
  - Goodwill on professional practices
- Prioritizing needed:
  - you cannot hit current generation on all dimensions
- Fiscal watchdogs should enter debate on structural reforms



## Lesson II: broad remit

- Scope of activities should not be limited to fiscal policy
  - Contribution to a common understanding of trade offs
  - Different from mandate OBR
- Effectiveness depends on demarcation roles watchdog-politics
- Rethinking demarcation fiscal – monetary policy
  - Demarcation politics - technocracy
  - Rearranging tasks towards technocrats
  - In particular in Euro area, but against populist outcry
- Welfare theory provides little guidance for demarcation line





## Lesson III: independence

- Reputation of quality is crucial; building it takes time
- Closeness of ties to government is trade off
  - Better, policy relevant information
  - Less independence